VZCZCXRO4865
PP RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #0175/01 0260953
ZNR UUUUU ZZH
P 260953Z JAN 09
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 0278
INFO RUEHBJ/AMEMBASSY BEIJING 7399
RUEHUL/AMEMBASSY SEOUL 3437
RUEHGP/AMEMBASSY SINGAPORE 7339
RUEHFR/AMEMBASSY PARIS 6402
RUEHRL/AMEMBASSY BERLIN 1579
RUEHFK/AMCONSUL FUKUOKA 2054
RUEHNH/AMCONSUL NAHA 4401
RUEHOK/AMCONSUL OSAKA KOBE 5842
RUEHNAG/AMCONSUL NAGOYA 9942
RUEHKSO/AMCONSUL SAPPORO 2613
RUEHHK/AMCONSUL HONG KONG 6680
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHBS/USEU BRUSSELS
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RUEHIN/AIT TAIPEI 7242

UNCLAS SECTION 01 OF 02 TOKYO 000175

SENSITIVE
SIPDIS

STATE FOR EAP/J, EEB/TRA FOR BYERLY
PASS TO USTR FOR MICHAEL BEEMAN
PASS TO DOT FOR KEITH GLATZ
PASS TO COMMERCE FOR KEITH ROTH AND DANIEL LEE

E.O. 12958: N/A
TAGS: EAIR ETRD PGOV JA
SUBJECT: JAPAN AIRLINES DISCUSSES CURRENT CIVAIR MARKETS

REF: 08 TOKYO 3344

SENSITIVE BUT UNCLASSIFIED. CONTAINS BUSINESS SENSITIVE INFORMATION.

¶1. (SBU) Summary: Japan Airlines (JAL) is coping with the decrease in business travelers by focusing more on the market for leisure travel and maintaining its strategy of flying smaller aircraft with larger load factors, according to a JAL executive. The JAL Vice President for International Affairs told Emboffs January 23 the airline has no plans to purchase the Airbus 380 or the Mitsubishi Regional Jet (MRJ). Despite the overall economic downturn, a strong yen and lower fuel surcharges have increased leisure travel to nearby Asian destinations. Regarding the on-going U.S.-Japan exchanges on civil aviation arrangements, JAL, he said, has no particular needs at this time. He complained about inflexibility among Japanese bureaucrats and weak management at Japan's airports. End Summary.

Focus on Leisure Travel

¶2. (SBU) Like other airlines, the economic downturn has cut JAL's volume of business travelers, JAL International Affairs Executive Officer and Vice President Tsutomu Ando told EMIN January 23. Businesses cut costs by first reducing entertainment and travel expenses, which means declining premium air ticket sales. Fare reductions do not affect business demand, so JAL is trying to cope by accessing the market for leisure travel, Ando explained. Price-sensitive leisure travelers are more likely to travel to nearby destinations in Asia for short trips, e.g., to take advantage of the strong yen and shop in Korea or other destinations, than to make longer, more expensive trips to Europe or North America. Such travelers also tend to be able to get away for only short periods of time. As a result, JAL is cutting fares and has noted an increase in leisure travelers to nearby destinations such as Hawaii, Guam, Hong Kong, and Korea. (Note: During the New Year holiday, JAL's international and domestic travel decreased 5.5 percent and

1.9 percent respectively over 2007. End note.)

First Quarter Looking (Somewhat) Better?

¶3. (SBU) Despite the overall downturn, Ando expects two factors to affect the airline market positively in January and February: the decrease in fuel surcharges and the strong yen. For example, he noted 2008 year-end travel to Korea increased 50 percent over the previous year. Ando anticipates the March spring break will generate an increase in leisure travelers and he hopes the market will improve overall in the next fiscal year that begins in April. Any increase in such travelers going on the spur of the moment to shop with the strong yen does not reach across the full population, however. Retirees, who are frequently seen as attractive potential travelers because of their available free time and levels of discretionary income, are not flying as much now because they are also more prone to concerns about how the economy may affect nest eggs and pensions, Ando said.

Premium Travel Still the Bread and Butter

¶4. (SBU) Despite the economic downturn and decrease in business travel, JAL has to stick to its strategy of concentrating on premium travel, Ando asserted. JAL is and will remain based in high-cost Japan; it cannot compete in the non-premium market, nor can it target the sorts of

tourists using budget airlines in European, southeast Asian, or other markets. Several years ago, JAL announced a "downsizing" strategy flying smaller more fuel-efficient aircraft (e.g., using the B-737 instead of the larger B-747). By maintaining the same number of business class seats and making any cuts in economy class, the strategy allowed JAL to reduce costs twenty percent while increasing load factors and, Ando insisted, maintaining profitability. As a result of this strategy, JAL has no plans to purchase the new A380 or any other large aircraft. Because JAL has placed already orders for a 70 to 80-person aircraft for 2009, it does not plan to purchase the Mitsubishi Regional Jet (MRJ), the 90-person aircraft that should be available in 2013. Nevertheless, JAL will consider MRJ for future purchases.

Lukewarm on Charter Flights

¶5. (SBU) The Ministry of Land, Infrastructure, Transportation and Tourism (MLIT) recently announced a plan to increase charter flights as a means of promoting tourism. However, MLIT's plan, which will increase charter flights for foreign companies, creates additional competition for JAL and therefore is unlikely to benefit the company, said Ando.

No Good News on Air Talks, Airports or Bureaucracy

¶6. (SBU) There is "no serious obstacle" for the U.S.-Japan civil aviation negotiations, said Ando, but he "cannot see how to move forward from the current situation." He said MLIT should communicate more with the USG and must continue a dialogue to move issues forward. Regarding Japan's airports, "absolutely all" are managed poorly, he complained, with charters essential for their business. He noted, too, problems with GOJ bureaucrats saying they should be more dynamic to deal with the globalized world. However, right now they are too inflexible to address Japan's current challenges.
ZUMWALT